

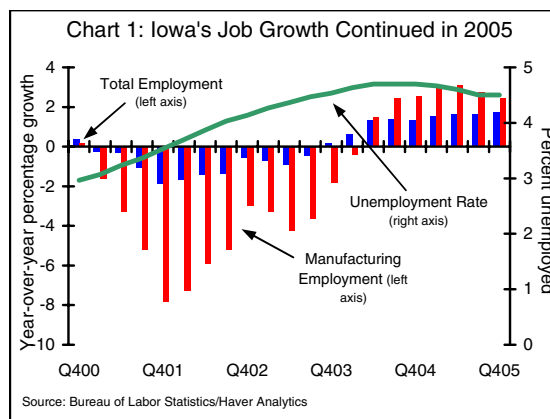
# FDIC State Profile

Spring 2006

## Iowa

Iowa's economy continued to gain strength in fourth quarter 2005.

- Iowa's economy gained nearly 8,000 jobs in the fourth quarter, contributing to an increase of more than 25,000 jobs for the year. Year-over-year employment growth increased to reach 1.8 percent in the fourth quarter (see Chart 1).
- Economic expansion was broadly-based, as every major employment sector except information added jobs in 2005. The construction sector experienced the strongest growth of the major sectors during the year. Despite sustained job growth in the fourth quarter, Iowa's unemployment rate remained unchanged at 4.5 percent, as new job seekers continued to enter the labor force.



Iowa's farm income is expected to decline in 2006.

- The United States Department of Agriculture (USDA) has forecasted a 22 percent decline in national farm income from 2005 to 2006 due to lower livestock and crop values and increased energy costs. Iowa farmers can expect a similar decline in their farm income (see Table 1).
- Record corn harvests in 2004 and 2005, both nationally and in Iowa, have led to record inventories, depressing the price for corn in 2006. Similarly, a record soybean harvest in 2005 has lowered the price of that commodity.
- Iowa hog producers are forecasted to face a 13 percent decline in prices in 2006, as production has increased in response to the record profits in that sector over the previous two years.

**Table 1: Most Commodity Prices Are Expected to Decline in 2006**

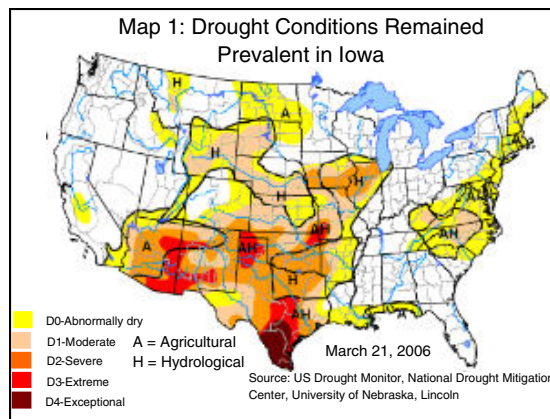
	2003	2004	Est. 2005	Forecast 2006	% of IA Ag Cash Receipts
Corn	2.32	2.42	2.06	1.90	28.8
Soybeans	5.53	7.34	5.74	5.50	19.7
Cattle	84.69	84.75	87.28	85.50	14.5
Hogs	39.45	52.51	50.05	43.50	25.9
Milk	12.52	16.05	15.15	13.45	4.2
Other					6.9

Note: Grain prices are for marketing year of each crop. Crop quantities are per bushel; livestock are per hundredweight.

Source: USDA WASDE, February, 2006, USDA/ERS 2005

**Drought conditions in Iowa continue to be a concern.**

- Drought conditions did not improve in the fourth quarter, and "moderate" to "severe" drought conditions cover approximately two thirds of the state (see Map 1).
- Unseasonably warm, dry weather has left soil moisture depths as "short" to "very short" in over half of the state



## State Profile

and caused concern among farmers about potential pest problems later in the growing season.<sup>1</sup>

- Warmer winter weather aided livestock producers, who reported fewer livestock losses than normal.

### Energy prices for Iowa farmers are forecasted to rise again in 2006.

- According to the USDA, in February 2006 fertilizer and fuel costs were up 16 percent and 30 percent, respectively, from one year earlier. Overall, fertilizer and fuel costs are forecasted to increase 9.7 percent nationally in 2006 (see Table 2).<sup>2</sup>
- Rising costs for fertilizer and fuel are in part due to increased global fuel demand and the continued recovery from last year's active hurricane season; in the Gulf region, approximately 17 percent of normal natural gas production and 25 percent of oil production remain off-line.<sup>3</sup>
- Nationally, the USDA estimates that fuel and fertilizer costs accounted for 10.9 percent of total agricultural production costs in 2005, up 11 percent from 2004.

### Insured institutions in Iowa saw their earnings decline in 2005, largely because of lower net interest margins (NIM).

- Earnings performance remained strong, although the median annual return on assets (ROA) ratio declined slightly in 2005. The ROA decline mirrored a decline in median annual NIM. Other noninterest income and expenses, and loan loss provisions were essentially unchanged from the previous year.
- NIM declined as funding costs increased more rapidly than earning asset yields (see Chart 2). In 2005, the spread between loan and security yields and funding interest costs narrowed for the third consecutive year.
- A substantial shift in earning assets mix from securities to loans, which typically carry higher yields than securities, has offset some of the negative effects of narrowing yield-cost spreads. The median loan-to-assets ratio has surged from 62.1 percent in 2003 to a historically high 67.2 percent in 2005.

### Insured institutions in Iowa reported sharp increases in construction and development loan (C&D) concentrations.

- Insured institutions, particularly those headquartered in the state's larger urban markets, reported strong growth in C&D lending in 2005, boosting C&D concentrations to new highs (see Chart 3). This growth mirrored strong

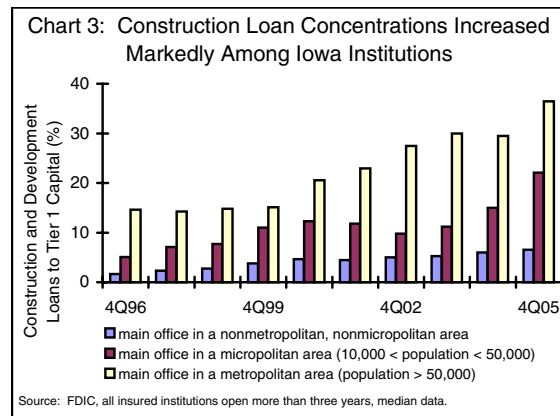
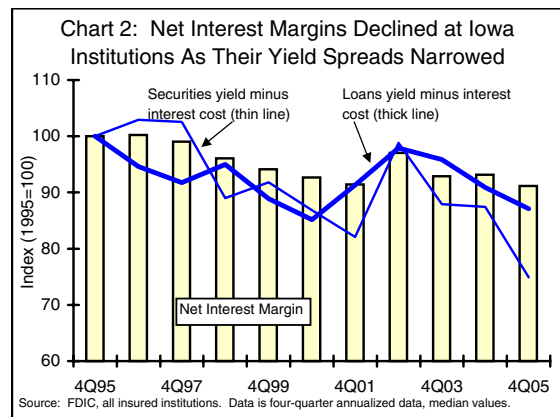
growth in Iowa's construction sector. This type of loan tends to have higher risk but also yields higher returns.

- Although state C&D concentrations have increased, they remain subdued relative to national figures. Nationally, the median C&D concentrations for metropolitan and micropolitan areas are 61 percent and 28 percent, respectively.

**Table 2: Higher Energy Costs Are Expected for Iowa Farmers in 2006**

	2005 Acres* (1,000)	Cost per acre** 2006 Estimates		Cost per acre** 2000-2004 Avg.	
		Fuel	Fertilizer	Fuel	Fertilizer
Corn	12,800	41.94	58.25	24.26	42.47
Soybeans	10,100	13.52	10.25	8.49	7.69
Wheat	20	16.95	28.24	10.38	21.20

\*Estimated planted acres. \*\*Cost per acre for nation.  
Source: USDA/NASS Crop Production, ERS US Cost and Returns Data.



<sup>1</sup>NASS, USDA, *Weekly Weather and Crop Bulletin, State Stories*, February 7, 2006.

<sup>2</sup>NASS, USDA, *Agricultural Prices*, February 28, 2006.

<sup>3</sup>Office of Electricity Delivery and Energy Reliability (OE), US Department of Energy, *Final Gulf Coast Hurricanes Situation Report (#46)*, January 26, 2006.

## Iowa at a Glance

### ECONOMIC INDICATORS (Change from year ago, unless noted)

<b>Employment Growth Rates</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.8%	1.6%	1.3%	1.2%	-0.5%
Manufacturing (16%)	2.5%	2.8%	2.6%	1.5%	-3.2%
Other (non-manufacturing) Goods-Producing (5%)	4.2%	4.2%	3.4%	5.4%	1.0%
Private Service-Producing (63%)	1.6%	1.4%	1.4%	1.1%	-0.1%
Government (17%)	1.0%	0.6%	-0.4%	-0.1%	0.4%
Unemployment Rate (% of labor force)	4.5	4.5	4.7	4.7	4.4

<b>Other Indicators</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Personal Income	N/A	4.9%	9.4%	8.9%	1.9%
Single-Family Home Permits	3.9%	14.4%	-1.9%	-2.4%	25.9%
Multifamily Building Permits	-6.6%	42.6%	-16.3%	-13.5%	-14.0%
Existing Home Sales	3.3%	6.7%	6.5%	13.9%	6.8%
Home Price Index	6.3%	5.9%	4.6%	4.8%	3.7%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	7.38	6.66	3.96	4.31	4.16

### BANKING TRENDS

<b>General Information</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Institutions (#)	411	411	414	414	422
Total Assets (in millions)	53,750	52,657	51,091	51,091	55,932
New Institutions (# < 3 years)	4	5	3	3	6
Subchapter S Institutions	203	203	192	192	188

<b>Asset Quality</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.23	1.18	1.11	1.11	1.35
ALLL/Total Loans (median %)	1.20	1.20	1.24	1.24	1.27
ALLL/Noncurrent Loans (median multiple)	2.57	2.52	2.74	2.74	2.45
Net Loan Losses / Total Loans (median %)	0.04	0.00	0.03	0.05	0.07

<b>Capital / Earnings</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Tier 1 Leverage (median %)	9.27	9.50	9.34	9.34	9.09
Return on Assets (median %)	1.04	1.13	1.04	1.13	1.12
Pretax Return on Assets (median %)	1.28	1.43	1.30	1.44	1.44
Net Interest Margin (median %)	3.73	3.72	3.82	3.80	3.79
Yield on Earning Assets (median %)	6.09	5.93	5.64	5.57	5.84
Cost of Funding Earning Assets (median %)	2.35	2.21	1.75	1.71	2.01
Provisions to Avg. Assets (median %)	0.05	0.04	0.05	0.06	0.08
Noninterest Income to Avg. Assets (median %)	0.56	0.54	0.56	0.55	0.57
Overhead to Avg. Assets (median %)	2.69	2.55	2.77	2.60	2.63

<b>Liquidity / Sensitivity</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Loans to Assets (median %)	66.8	67.5	64.4	64.4	61.5
Noncore Funding to Assets (median %)	17.5	18.5	15.5	15.5	14.6
Long-term Assets to Assets (median %, call filers)	14.7	14.9	16.3	16.3	16.6
Brokered Deposits (number of institutions)	116	113	96	96	84
Brokered Deposits to Assets (median % for those above)	2.8	2.8	2.2	2.2	1.3

<b>Loan Concentrations (median % of Tier 1 Capital)</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Commercial and Industrial	95.2	93.5	87.7	87.7	84.4
Commercial Real Estate	102.7	102.8	92.8	92.8	90.3
Construction & Development	16.8	15.7	12.1	12.1	10.9
Multifamily Residential Real Estate	2.8	2.8	2.5	2.5	2.3
Nonresidential Real Estate	74.6	73.3	70.6	70.6	66.2
Residential Real Estate	147.6	148.2	154.6	154.6	152.5
Consumer	37.2	37.9	37.2	37.2	39.7
Agriculture	210.8	213.8	208.8	208.8	207.9

### BANKING PROFILE

<b>Largest Deposit Markets</b>	<b>Institutions in Market</b>	<b>Deposits (\$ millions)</b>	<b>Asset Distribution</b>	<b>Institutions</b>
Omaha-Council Bluffs, NE-IA	74	14,442	< \$250 million	372 (90.5%)
Des Moines, IA	49	9,845	\$250 million to \$1 billion	34 (8.3%)
Davenport-Moline-Rock Island, IA-IL	46	5,609	\$1 billion to \$10 billion	5 (1.2%)
Cedar Rapids, IA	43	3,783	> \$10 billion	0 (0%)
Iowa City, IA	20	2,155		